



Islamic Finance In The Modern Global Financial System: Current Trends And The Practice Of Its Implementation In Uzbekistan.

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Annotation. This article is based on highlighting the economic essence of Islamic finance from various approaches, and aims to provide a clear understanding of the financial institutions and instruments that have emerged from the mutual integration of Sharia and finance. The emergence of Islamic finance in the global financial system and its preference by countries are analyzed. At the same time, the existing problems in the introduction of Islamic finance in the Republic of Uzbekistan are analyzed and proposals are made to eliminate these problems.

Keywords: Islamic finance, financial market, integration of Sharia and finance, riba-free loans and investments, musharaka, mudaraba, murabaha, sukuk, halal investment, Islamic development bank, partnership-based business.

Introduction.

In recent years, Islamic finance has emerged as one of the fastest-growing segments of the global financial system. Based on the principles of Shariah law, Islamic finance prohibits the payment and receipt of interest (*riba*), restricts speculative transactions, and promotes financing activities that are linked to the real economy. As a result, this financial model has gained widespread acceptance not only in Muslim-majority countries but also in Europe, Asia, and the Americas.

At a time when the global economy is facing increasing financial crises, inflationary pressures, and market volatility, Islamic finance has attracted significant attention as a stable, ethical, and equitable financial system. Given that Muslims constitute approximately 25% of the world's population, there is a growing demand for financial institutions and products that comply with Shariah principles. Furthermore, the presence of Islamic banks in countries such as the United Kingdom, the United States, Luxembourg, and Russia demonstrates the increasing global acceptance of Islamic financial services beyond the Muslim community. However, the relatively limited geographical spread of Islamic banking and the complexity of some Islamic financial products are often regarded as challenges to the industry's further expansion.

Today, the Islamic finance industry continues to experience rapid growth worldwide. Several factors contribute to this steady expansion, including:

- the growing demand for financial solutions that comply with Shariah principles;
- the expansion of international investment cooperation and the desire to diversify financial markets;
- the search for alternative financing models amid global economic uncertainty;
- the increasing demand for ethical and socially responsible investment instruments; and



- the gradual integration of Islamic and conventional financial systems.

According to international studies, the total value of global Islamic finance assets exceeded USD 5 trillion in 2024 and surpassed USD 6 trillion in 2025. Moreover, the industry is projected to reach approximately USD 7.5 trillion by 2028, highlighting its strong growth potential and increasing significance within the global financial landscape.

In Uzbekistan, the development of Islamic finance has become particularly relevant, as approximately 96.7% of the country's population identifies as Muslim. Consequently, there is a growing societal demand for financial institutions and services that operate in accordance with Shariah principles. Recognizing this demand, the Government of Uzbekistan has undertaken several legislative reforms to facilitate the introduction of Islamic financial services.

In particular, the Law of the Republic of Uzbekistan No. ZRU-765 “On Non-Bank Credit Organizations and Microfinance Activities,” adopted on April 20, 2022, authorized microfinance institutions to provide Islamic financing services. Furthermore, the Resolution of the Board of the Central Bank “On Approval of the Regulation on the Procedure for Providing Islamic Financing Services by Microfinance Organizations” was officially registered by the Ministry of Justice on July 26, 2024, under No. 3536. This regulation established the legal framework for microfinance institutions to offer five types of Islamic financing services: Ijara (Islamic leasing), Murabaha (cost-plus financing), Salam (forward sale financing), Mudaraba (profit-sharing partnership), and Musharaka (joint venture partnership).

These reforms represent important steps toward the development of Islamic finance in Uzbekistan and create new opportunities for expanding access to Shariah-compliant financial services within the country.

Literature Review.

The concepts of “Islamic economics” and “Islamic finance” have not yet been universally defined as distinct scientific categories. Nevertheless, economists and scholars from the Muslim world have proposed various theoretical interpretations of these concepts. Determining their precise meaning, scope, and boundaries remains one of the key theoretical issues within Islamic economic thought.

One of the most prominent scholars in this field, the Saudi economist Muhammad Umar Chapra, defines Islamic economics as a branch of knowledge that seeks to achieve human well-being through the allocation and utilization of scarce resources in accordance with Islamic teachings. According to Chapra, such an economic system safeguards individual freedom while preventing long-term macroeconomic and environmental imbalances. In this context, Islamic economics can be understood as a body of knowledge that guides individuals in the efficient use of resources while adhering to Islamic principles and ethical norms. Furthermore, it emphasizes the importance of freedom in economic decision-making, risk prevention, and effective risk management.

Other scholars have also attempted to define Islamic economics, although some of their interpretations do not fully encompass all aspects of the concept. For instance, Hasan az-Zaman describes Islamic economics as a body of knowledge that applies the injunctions and prohibitions of Shariah to eliminate injustice that may arise in the ownership and management



of material resources.

Among the scholars who have extensively studied Islamic financial practices, Abbas Mirakhor emphasizes the close relationship between financing mechanisms and the real sector of the economy. According to him, Islamic financial contracts such as Murabaha, Ijara, Salam, and Istisna play a significant role in supporting economic growth while limiting excessive financial speculation. He argues that these instruments contribute to financial stability by linking financial transactions to tangible economic activities.

A distinguished Islamic jurist and contemporary theorist of Islamic finance, Muhammad Taqi Usmani pays particular attention to the Shariah compliance of Islamic financial mechanisms. He emphasizes that Islamic financing should not only pursue economic efficiency but must also strictly adhere to Shariah principles. According to Usmani, the proper implementation of instruments such as Murabaha, Ijara, Musharaka, and Sukuk is essential for ensuring the stability, credibility, and sustainability of the Islamic financial system.

The French economist and 2014 Nobel Prize laureate Jean Tirole, while examining financial system stability, highlights the importance of risk-sharing mechanisms and institutional transparency. His theoretical approach is consistent with one of the fundamental principles of Islamic finance, namely the equitable distribution of risks among participants in financial transactions.

The prominent Russian scholar Rinat Bekkin analyzes Islamic finance from both institutional and historical perspectives. He views Islamic financial mechanisms as a combination of Shariah principles and modern financial institutions. In his opinion, the effectiveness of these mechanisms largely depends on the strength of the legal framework and the transparency of contractual relationships.

Among Central Asian researchers, the Kazakh economist Erlan Alimjanovich Baydaulet has made significant contributions to the study of Islamic finance. In his research, he interprets Islamic financing mechanisms as a system integrated with the real sector of the economy and argues that Murabaha and Musharaka serve as effective financial instruments for supporting the development of small and medium-sized enterprises.

In Uzbekistan, Islamic finance has become an increasingly important area of academic research in recent years. In particular, Sh.Z. Abdullayev and B.X. Xolmurodov have examined the prospects for introducing Islamic financing mechanisms into the national banking system. Their studies conclude that Murabaha and Ijara are among the most suitable Islamic financial instruments for implementation in Uzbekistan's current economic environment.

Research Methodology.

This study employs scientific observation, statistical analysis, comparative analysis, and generalization methods. The research is based on data obtained from international financial institutions, particularly the ICD–LSEG Islamic Finance Development Report 2025, as well as regulatory and legal documents of the Republic of Uzbekistan related to the development of Islamic finance.

The analysis focuses on the performance indicators of the global Islamic finance market and the ongoing reforms aimed at introducing Islamic banking services in Uzbekistan. By examining international experience and national regulatory developments, the study evaluates



the current state and future prospects of Islamic finance within both global and domestic contexts.

Analysis and Results.

According to the *ICD–LSEG Islamic Finance Development Report 2025*, the total assets of the global Islamic finance industry increased from USD 2.4 trillion in 2016 to a record USD 5.98 trillion by the beginning of 2025. This represents nearly a 2.5-fold increase in market size over the period. Moreover, total assets grew by 21 percent in the last year alone, demonstrating the industry's strong growth momentum. The structure of the global Islamic finance market is presented in Table 1.

Table 1

Structure of the Global Islamic Finance Market¹

Sector	Share
Islamic Banking	More than 70%
Sukuk Market	20–25%
Takaful (Islamic Insurance)	2–3%
Islamic Investment Funds	Around 5%

Islamic banking constitutes the largest segment of the industry, accounting for approximately 72 percent of total Islamic financial assets in 2024. The majority of Islamic finance capital is concentrated in five leading countries: Iran, Saudi Arabia, Malaysia, the United Arab Emirates, and Kuwait. Approximately 69 percent of all Islamic financial assets are held within the Islamic banking sector.

At the same time, the Sukuk (Islamic bonds) market and green Islamic investments have been expanding at a faster pace than other segments of the industry. This trend reflects the growing demand for sustainable and Shariah-compliant investment instruments in international financial markets.

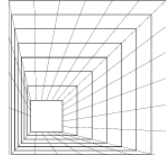
According to ICD–LSEG projections, the total value of global Islamic finance assets is expected to reach USD 9.7 trillion by 2029, indicating substantial growth potential and an increasingly important role for Islamic finance within the global financial system.

By 2026, the global Islamic finance industry had become a massive financial system with assets exceeding USD 6 trillion. The Islamic finance market is characterized by a degree of specialization among leading countries. To better understand global trends, it is useful to examine the top three countries in the Islamic Finance Development Indicator (IFDI) ranking.

1. Malaysia. IFDI Score: More than 144 points, making Malaysia the undisputed global leader. The country demonstrates particularly strong performance in the Knowledge and Governance categories.

2. Saudi Arabia. IFDI Score: Approximately 119 points, securing a strong second place globally. The Kingdom leads the ranking in terms of financial performance indicators.

¹[icd-seg.com/en/data-analytics /islamic-finance/islamic-market-intelligence/ islamic-finance-development-report-2024?utm_source=chatgpt.com](https://www.icd-seg.com/en/data-analytics/islamic-finance/islamic-market-intelligence/islamic-finance-development-report-2024?utm_source=chatgpt.com)



3. United Arab Emirates. IFDI Score: Approximately 88 points, placing the UAE third globally. The country demonstrates outstanding performance in the areas of Innovation and Digital Readiness.

According to data from the Central Bank of Uzbekistan, microfinance institutions provided loans totaling UZS 21.3 trillion during the period from January to September 2025. Of this amount, Islamic financing services accounted for UZS 8.6 billion.

The volume of Islamic financing services provided by microfinance institutions during January–September 2025 was 14 times higher than in the corresponding period of the previous year, indicating a rapidly growing demand for Shariah-compliant financial products and services.

Overall, microfinance institutions and pawnshops extended UZS 21.3 trillion in financing to individuals and businesses during the reporting period, which represents a twofold increase compared to the same period of the previous year. Of the total amount, 90 percent (UZS 19.2 trillion) was issued by microfinance institutions, while 10 percent (UZS 2.1 trillion) was provided by pawnshops.

Regarding the distribution of financing, UZS 20.5 trillion (96 percent) was allocated to individuals, while UZS 746 billion (4 percent) was directed to legal entities. These figures demonstrate both the growing role of microfinance institutions in Uzbekistan's financial system and the increasing interest in Islamic financing instruments among the population and business community.

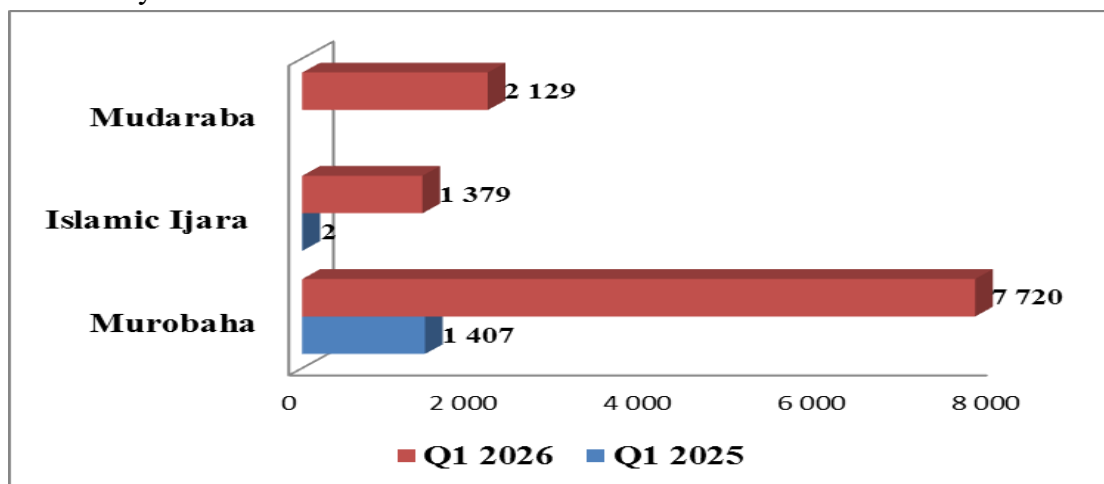
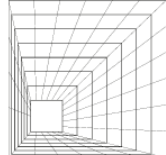


Figure 1. Volume of Islamic Financing Services Provided by Microfinance Institutions² (in million UZS)

The recent legislative reforms and the rapid growth of Islamic financing services indicate that Uzbekistan possesses significant potential for further development of the Islamic finance sector. By drawing on the experiences of leading Islamic finance jurisdictions such as Malaysia, Saudi Arabia, and the UAE, Uzbekistan can strengthen its financial system, attract new

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investment flows, and expand access to Shariah-compliant financial services.

According to the data, during the first quarter of 2026, the composition of Islamic financing services provided by microfinance institutions was dominated by Murabaha transactions, which accounted for 69% of the total volume (UZS 7.7 billion). This was followed by Mudaraba, representing 19% (UZS 2.1 billion), and Islamic Ijara, which constituted 12% (UZS 1.4 billion).

The growth rates of these financing instruments were particularly remarkable. Compared to the corresponding period of the previous year, the volume of Murabaha services increased by 20 times, while Islamic Ijara services demonstrated an extraordinary growth of 300 times. These figures indicate the rapidly increasing demand for Shariah-compliant financing products in Uzbekistan.

When analyzed by client category, the total volume of Islamic financial services provided during January–March 2026 shows that legal entities received financing amounting to UZS 5.2 billion, accounting for 46% of all Islamic financing services and representing a 12-fold increase compared to the previous year. This amount included UZS 5.1 billion under Murabaha contracts and UZS 60 million under Islamic Ijara agreements.

Individual customers received a total of UZS 2.9 billion, representing 26% of the total Islamic financing portfolio and a fourfold increase compared to the same period of the previous year. Of this amount, UZS 2.1 billion was provided through Mudaraba contracts, while UZS 811.3 million was financed through Murabaha arrangements.

Meanwhile, individual entrepreneurs were provided with Islamic financing services totaling UZS 3.1 billion, accounting for 28% of the overall portfolio and demonstrating a 20-fold increase compared to the previous year. This financing consisted of UZS 1.8 billion under Murabaha contracts and UZS 1.3 billion through Islamic Ijara agreements.

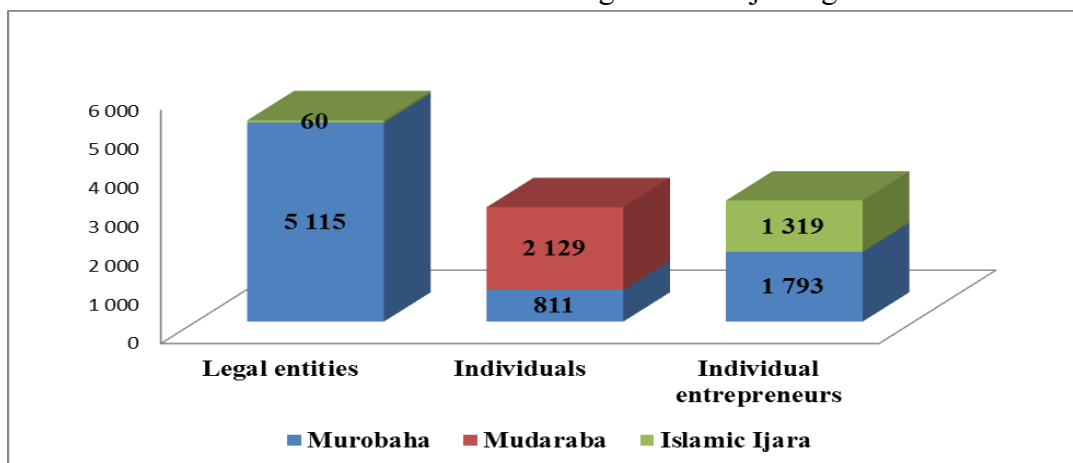
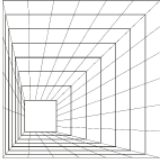


Figure 2. Distribution of Islamic Financing Services by Client Category³ (First Quarter of 2026, million UZS)

Although the introduction of Islamic finance and Islamic banking in the Republic of Uzbekistan

³https://cbu.uz/upload/iblock/0a6/5bfk3b3o9ipfjihlcfgdm4lipspcpheux/Islomiy_moliyalashtirish_khizmatlari_to'g'risida.pdf



may appear relatively straightforward, several challenges continue to hinder the sector's rapid development. The main obstacles include:

- Insufficient development of the legislative and regulatory framework;
- The inability of many financial institutions to fund their operations exclusively through Shariah-compliant assets;
- Limited public awareness and understanding of Islamic banking services;
- A shortage of qualified specialists and experts in Islamic finance;
- Existing infrastructural and institutional constraints.

Despite these challenges, significant progress has been made in establishing the legal foundations for Islamic banking in Uzbekistan. Islamic banks are expected to commence full-scale operations beginning in 2027. Currently, 14 commercial banks in Uzbekistan are undertaking the necessary procedures to obtain licenses for providing Islamic banking services. A major milestone in this process was the adoption of Law No. ZRU-1126 of March 28, 2026, which introduced amendments and additions to several legislative acts of the Republic of Uzbekistan aimed at facilitating the implementation of Islamic banking activities. The amendments affect the Civil Code, Tax Code, the Law “On the Central Bank”, the Law “On Banks and Banking Activities”, and several other regulatory documents.

Under the amendments to the Law “On the Central Bank,” the Central Bank of Uzbekistan has been granted the authority to approve Islamic finance standards for credit institutions and to issue, renew, and revoke licenses for Islamic banking activities. Banks that obtain such licenses will be permitted to conduct both conventional banking operations and Islamic financial transactions simultaneously.

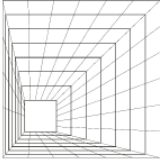
The legislation also provides for the establishment of an Islamic Finance Council under the Central Bank. This collegial body will consist of five members and will be responsible for coordinating the Islamic financial activities of entities supervised by the Central Bank. The powers, legal status, and qualification requirements of the Council's members will be determined by the Board of the Central Bank.

Overall, the recent legislative reforms demonstrate Uzbekistan's commitment to developing a comprehensive Islamic finance ecosystem. The establishment of a dedicated regulatory framework, the creation of specialized supervisory institutions, and the anticipated launch of Islamic banking operations from 2027 are expected to contribute significantly to financial sector diversification, investment attraction, and the expansion of Shariah-compliant financial services in the country.

Conclusion and Recommendations.

Islamic finance has become one of the most important and promising segments of the global financial system. The fact that global Islamic financial assets have exceeded USD 6 trillion and are projected to reach approximately USD 7.5 trillion in the coming years clearly demonstrates the sector's significant economic potential and growing importance in international financial markets.

The findings of this study indicate that Islamic finance is no longer merely an alternative financing mechanism but has evolved into a dynamic and rapidly expanding component of the global financial architecture. The continuous growth of Islamic financial assets, coupled with



increasing demand for Shariah-compliant financial products, highlights the sector's investment attractiveness and long-term sustainability.

The experiences of the leading countries in the Islamic Finance Development Indicator (IFDI) ranking—namely Malaysia, Saudi Arabia, and the United Arab Emirates—demonstrate that the successful development of Islamic finance depends on several key factors, including a strong legal framework, qualified human resources, technological innovation, and effective government support. Malaysia has achieved leadership through its advanced educational and governance systems; Saudi Arabia through its substantial financial resources and fintech ecosystem; and the UAE through its emphasis on digital technologies and innovative financial solutions.

For Uzbekistan, the experiences of these countries provide valuable practical lessons. The legal and institutional reforms currently being implemented, together with growing public interest in Shariah-compliant financial services and the potential to attract foreign investment, create favorable conditions for the sustainable development of Islamic finance in the country.

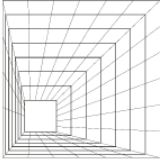
In recent years, Uzbekistan has undertaken significant legal and institutional reforms aimed at promoting Islamic finance. These reforms are expected to contribute to the attraction of foreign investment, diversification of financial services, and strengthening of economic stability. Consequently, Islamic finance has the potential to become an important component of Uzbekistan's financial system in the near future.

Nevertheless, several challenges continue to hinder the development of Islamic finance in Uzbekistan, including:

- a shortage of qualified Islamic finance professionals;
- limited academic research in the field of Islamic finance;
- insufficient financial literacy among the population;
- the underdevelopment of the sukuk market and takaful (Islamic insurance) sector.

Based on the findings of this study, the following recommendations can be proposed:

1. Improve the legal and regulatory framework. Regulatory documents governing Islamic banking, sukuk markets, and takaful operations should be further developed in accordance with internationally recognized standards and best practices. Enhance human capital development. Universities and higher education institutions should introduce specialized academic programs in Islamic finance, Islamic economics, and Shariah auditing to address the shortage of qualified professionals.
2. Expand international cooperation. Uzbekistan should strengthen partnerships with financial institutions and regulatory bodies in leading Islamic finance jurisdictions such as Malaysia, Saudi Arabia, and the UAE to benefit from their experience and expertise.
3. Develop the sukuk market. Establishing mechanisms for issuing sovereign and corporate sukuk would provide new opportunities for financing infrastructure projects, public investments, and private-sector development. Promote fintech and digital transformation. The digitalization of Islamic financial services through mobile applications and online platforms would improve accessibility and increase the efficiency of financial service delivery.



4. Increase financial literacy. Public awareness campaigns and educational initiatives should be implemented to enhance understanding of Islamic finance principles, products, and benefits, thereby strengthening public confidence in Shariah-compliant financial services.
 5. Encourage green and socially responsible finance. Drawing upon Malaysia's experience, Uzbekistan should consider introducing green sukuk and other socially responsible financing instruments to support environmental sustainability and socially beneficial projects.
- In conclusion, taking into account international experience and contemporary global trends, the development of Islamic finance in Uzbekistan can contribute significantly to the diversification of the national financial system, increase the country's investment attractiveness, and support long-term economic stability and sustainable development.

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